LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7882 **DATE PREPARED:** Jan 17, 2001
BILL NUMBER: SB 488 **BILL AMENDED:**

SUBJECT: Community Revitalization Enhancement Districts.

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FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: This bill provides that a county may establish a Community Revitalization Enhancement District (CRED) if the county's annual rate of unemployment has been above the average annual statewide rate of unemployment during the two preceding years. It specifies that for purposes of the community revitalization enhancement district tax credit, a taxpayer is not required to have a qualified investment approved by the Department of Commerce before the investment is made. The bill also provides that the credit may be assigned to a redevelopment commission, the Enterprise Zone Board, an urban enterprise association, or a nonprofit organization and it allows these entities to reassign the credit.

This bill provides that bonds under the Industrial Development Fund provisions must be issued before 2002. It provides that a property tax levy for an Industrial Development Fund may not be imposed after 2001. The bill also changes the membership of the advisory commissions on industrial development.

Effective Date: January 1, 2002.

Explanation of State Expenditures: Under current law, a taxpayer may claim a 25% investment credit for the redevelopment or rehabilitation of property in a community revitalization enhancement district (CRED) if the expenditure is made under a plan adopted by the advisory commission on industrial development and approved by the Indiana Department of Commerce (IDOC) *before* the expenditure is made. This bill would still allow the credit only if approved by the IDOC, but the credit would *not* have to be approved *before* the expenditure is made.

Currently, a taxpayer who receives a credit may assign it to a lessee. This bill would also allow assignment to a redevelopment commission, Enterprise Zone Board, urban enterprise association, or any nonprofit organization. Additionally, the bill would allow any of the above assignees to reassign the credit to any other taxpayer.
Under current law, the districts may be established only in Delaware County and parts of Monroe County.

This bill would allow the creation of one or more districts in any county where the county's unemployment rate has exceeded the statewide rate for the past two years. Fifty-three counties exceeded the statewide unemployment rate in 1999 and 43 counties exceeded the rate in November 2000. There were 35 counties that exceeded the statewide unemployment rate in both 1999 and November 2000. If these unemployment patterns continue, then about 35 counties would then be able to request the creation of CREDs. As is currently the case, after notification of a designation of a CRED by an advisory commission on industrial development, the State Budget Committee must review and the State Budget Agency must recommend the designation of the area.

Currently, the incremental amount of state and local income taxes and state gross retail taxes collected from a CRED is distributed to the district for deposit in the district's Industrial Development Fund. A unit may use this revenue to pay bonds issued to finance the redevelopment in a CRED. The Department of State Revenue (DOR) must calculate the income tax base period amount and the gross retail base period amount for the district. The Treasurer has to establish an Incremental Tax Financing Fund for a county that establishes a district. Money in the fund does not revert to the General Fund at the end of the fiscal year. Annually, the DOR and the State Budget Agency must estimate and certify the amount of income tax and sales tax which will be collected from the district. If new districts are created in any additional counties as a result of this bill, then the various state agencies would have to perform these functions for the new districts as well.

Explanation of State Revenues: Current law allows the capture of up to $1 M of the incremental taxes which are generated in a CRED. This revenue is transferred to the district’s Industrial Development Fund. The covered taxes include the sales tax, Gross Income Tax, Adjusted Gross Income Tax, Supplemental Net Income Tax, County Adjusted Gross Income Tax, County Option Income Tax, and County Economic Development Income Tax. State sales and income taxes are generally deposited in the state General Fund and the Property Tax Replacement Fund. The state forgoes any new income or sales tax revenue up to $1 M which is generated by the development in a CRED. If new districts are created in any additional counties as a result of this bill, then those districts would also receive incremental revenue with a corresponding reduction in state revenue. Under current statute, the tax loss from the establishment of these districts is restricted to 15 years.

The tax credit and increment will be available beginning January 1, 2002.

This tax credit is similar to the existing Industrial Recovery Site/Dinosaur Credit Program. (However this new tax credit is more restrictive due to the requirements specified in the bill.) Since the Industrial Recovery Site credit was established in 1987 through 1999, 30 buildings were approved for approximately $29 M in credits. These credits were based on an estimated $133.3 M of qualified investments. The credits ranged from $50,000 to $9 M with the average credit being approximately $1 M for an average of $5 M of qualified investments.

Explanation of Local Expenditures: Currently, the executive of a taxing unit must appoint six members to the unit’s advisory commission on industrial development. This bill would add four members bringing the total to ten. The new members would include two members from among the five largest employers in the unit, one member from the community development corporation, and one member from the urban enterprise association if there is an enterprise zone in the unit.

Explanation of Local Revenues: Under current law, a county, a township, or a municipality may impose a $0.05 property tax rate for the Industrial Development Fund. A unit may also currently incur debt to address development obstacles in the CRED. Effective January 1, 2002, this bill eliminates both the authority to impose a tax rate and the authority to incur debt. A search of local government records suggests that there are no units that are currently imposing this tax rate.

State Agencies Affected: State Budget Agency, Department of State Revenue, Indiana Department of Commerce.

Local Agencies Affected:

Information Sources: *inews*, Indiana Department of Workforce Development, 1/16/2001; Local Government Database.